SOFR-based Import Loan Facilitates LNG Imports as Prices Soar

Case Study

The Client

This major public sector APAC gas company is one of the world's largest liquefied natural gas (LNG) importers. The supplies it imports are used to generate power across the country and also distributed to households and businesses for heating.

The Challenge

In recent years, in common with many companies, the APAC country where this company is mandated as an LNG importer has adopted government-led initiatives designed to reduce carbon emissions. LNG is a key transition fuel, generating power and heat with less carbon intensity than coal or oil. In order to fulfil this mission and increase supplies, at a time of steeply rising prices, the company needed finance to facilitate its imports. It sought short-term trade finance of approximately $150 million for the purchase of a single cargo of LNG.

The Solution

Citi provided more than $150 million in the form of a short-term USD trade import loan in January 2022. The six-month loan, based on the LNG cargo invoice, was the borrower's first secured overnight financing rate (SOFR)-based loan following the transition from LIBOR-based lending. In addition to the trade import loan, Citi provided FX hedging for the borrower's import flows.

Citi won the transaction based on its competitive financing costs and readiness for SOFR: the bank began talking to clients about the transition (and upgraded its systems) in 2021. The trade import loan was the first time that Citi has worked with the company, potentially opening up further opportunities in cash, trade and project finance in the future. Unlike many banks, Citi manages the documentation process associated with import loans electronically, improving efficiency, and accelerating the delivery of funds to the seller.

The Result

The LNG importer successfully executed the trade import loan of around $150 million, enabling it to promptly procure LNG on the international market, mitigating its risk at the time of rapidly rising prices. Having used the SOFR benchmark, the borrower is well positioned for future borrowing as the market migrates from LIBOR.

The loan has laid the foundations for a stronger relationship between Citi and the company, creating opportunities for future import finance as well as the provision of spot and forward LNG pricing insights from Citi's markets team. Already, Citi is in a dialogue with the company about providing facilities to its overseas subsidiaries to support its LNG cargo procurement.

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